

Date 3/18/02

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 02-0124

REVISED

REBUTTAL TESTIMONY OF JOSEPH H. CERYANEC

I. Introduction

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2 1. Q: Please state your name, business address and present position.

3 A: My name is Joseph H. Ceryanec. My business address is 6400 C Street,
4 Cedar Rapids, Iowa 52406. I am Vice President and Controller and
5 Treasurer of McLeodUSA Incorporated ("McLeodUSA").
6

7 2. Q: Are you the same Joseph H. Ceryanec who previously filed Direct
8 Testimony in this proceeding?

9 A: Yes.
10

11 3. Q: What is the purpose of your rebuttal testimony?

12 A: The purpose of my rebuttal testimony is to comment on certain issues in
13 this case.
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II. Financial Condition of McLeodUSA Incorporated

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16 4. Q: Please discuss the financial condition of McLeodUSA after the
17 restructuring.

18 A: I think it is important to clarify for the record that McLeodUSA will be out of
19 bankruptcy (and will not be in payment default) upon the closing of the
20 restructuring. McLeodUSA will be a much stronger company financially as
21 a result of the restructuring and its ability to access the capital markets will
22 be substantially improved. The bankruptcy petition and plan of

23 reorganization filed by McLeodUSA was a pre-planned restructuring
24 based on the agreement with a Debt Bondholder Committee. At the time
25 of its Chapter 11 filing, McLeodUSA had \$140 million in cash, which
26 meant that McLeodUSA did not require a debtor in possession ("DIP")
27 loan. As I described in my Direct Testimony, the Plan of Reorganization
28 will result, among other things, in release and discharge of approximately
29 \$3.0 billion of McLeodUSA senior notes, and infusion of \$175 million of
30 new common equity by Forstmann Little. ICTC will have a financially
31 stronger parent as a result of the restructuring.

32
33 **5. Q: Please explain why the sale of ICTC that is part of the restructuring**
34 **increases McLeodUSA's incentive to keep ICTC adequately**
35 **capitalized.**

36 **A:** The structure of the deal with the senior secured creditors of McLeodUSA
37 provides substantial protection against excessive dividends being paid by
38 ICTC. Good business sense requires that McLeodUSA keep ICTC
39 adequately capitalized, and not in a weakened financial condition, to
40 attract a buyer at the best possible price. McLeodUSA has a strong
41 incentive to maximize the value of ICTC because it is entitled under the
42 Third Amendment to the Credit Agreement to retain the proceeds of any
43 sale to the extent such proceeds exceed \$225 million.

44 I would also note that McLeodUSA insisted to its senior creditors
45 that it be allowed to engage in an orderly sale process designed to
46 maximize the value of ICTC in any sale. McLeodUSA meets its
47 obligations to "sell" ICTC by entering into definitive agreements with a

prospective buyer within 14 months, with the closing subject only to the receipt of regulatory approvals, including those of this Commission.

Also, since McLeodUSA expects that its CLEC operations of its subsidiary McLeodUSA Telecommunications Services, Inc. will continue in Illinois after the sale of ICTC, McLeodUSA has every incentive to continue to maintain what it views as a solid, trustworthy relationship with Staff and the Commission.

6. Q: Do you have any comments on the testimony of Ms. Buckley?

A: Yes, I agree with Staff witness Karen Buckley that there is no reason to believe that there will be any adverse impact from the McLeodUSA reorganization upon ICTC's ability to provide adequate, reliable, efficient, safe and least-cost service in Illinois. I would go a step further and state that the transaction that the Commission is being asked to approve results in ICTC being owned by a parent that is substantially stronger after the restructuring.

7. Q: Does ICTC object to the conditions set forth in Ms. Kight's testimony?

A: The restructuring is a complicated transaction that we have attempted to describe to staff over the last few weeks. The key point we want to make is that for both McLeodUSA and ICTC, the restructuring is a significant positive event that will substantially improve McLeodUSA's balance sheet and access to capital. It has no impact on ICTC other than the requirement for McLeodUSA to sell ICTC and pay down bank debt as we

described previously in our testimony.

Given the extremely short time frame to conduct this proceeding, for which ICTC is fully responsible, there has not been the normal time for the parties to thoroughly engage in the informal give and take that may otherwise have occurred. If Staff believes the conditions are warranted, then ICTC would not object to the conditions recommended by Ms. Kight with some language modifications on which we have reached agreement with Staff. ICTC Exhibit 2.3^{4 Revised} is the revised set of conditions. Counsel for Staff has authorized me to state that these are the conditions that the Commission should impose.

8. Q: Staff witness Theresa Ebrey recommends that ICTC record any costs for outside services associated with obtaining regulatory approvals of the McLeodUSA restructuring in Account 32.7370, Special charges, and that such charges should not be reflected in the revenue requirement in future rate filings. Is that how you plan to account for such costs for outside services associated with obtaining regulatory approvals of the restructuring?

A: Yes, it is.

9. Q: Does this conclude your prepared rebuttal testimony?

A: Yes, it does.